

BERKSHIRE HATHAWAY INC.

ANNUAL REPORT 2017

SALIENT FEATURES

- 53 years of super normal growth
- 377,000 employees. Only 26 at headquarters
- Book value grown from \$19 to \$211,750
- Net worth gain 2017 – \$65.3 B (\$36 B operations, \$29 B tax benefit)
- Very little leverage despite low cost of capital in USA
- \$116 B cash at the end of 2017

STOCK PERFORMANCE VS S&P 500

Berkshire's Performance vs. the S&P 500

Year	Annual Percentage Change		
	in Per-Share Book Value of Berkshire	in Per-Share Market Value of Berkshire	in S&P 500 with Dividends Included
1965	23.8	49.5	10.0
1966	20.3	(3.4)	(11.7)
1967	11.0	13.3	30.9
1968	19.0	77.8	11.0
1969	16.2	19.4	(8.4)
1970	12.0	(4.6)	3.9
1971	16.4	80.5	14.6
1972	21.7	8.1	18.9
1973	4.7	(2.5)	(14.8)
1974	5.5	(48.7)	(26.4)
1975	21.9	2.5	37.2
1976	59.3	129.3	23.6
1977	31.9	46.8	(7.4)
1978	24.0	14.5	6.4
1979	35.7	102.5	18.2
1980	19.3	32.8	32.3
1981	31.4	31.8	(5.0)
1982	40.0	38.4	21.4
1983	32.3	69.0	22.4
1984	13.6	(2.7)	6.1
1985	48.2	93.7	31.6
1986	26.1	14.2	18.6
1987	19.5	4.6	5.1
1988	20.1	59.3	16.6
1989	44.4	84.6	31.7
1990	7.4	(23.1)	(3.1)
1991	39.6	35.6	30.5
1992	20.3	29.8	7.6
1993	14.3	38.9	10.1
1994	13.9	25.0	1.3
1995	43.1	57.4	37.6
1996	31.8	6.2	23.0
1997	34.1	34.9	33.4
1998	48.3	52.2	28.6
1999	0.5	(19.9)	21.0
2000	6.5	26.6	(9.1)
2001	(6.2)	6.5	(11.9)
2002	10.0	(3.8)	(22.1)
2003	21.0	15.8	28.7
2004	10.5	4.3	10.9
2005	6.4	0.8	4.9
2006	18.4	24.1	15.8
2007	11.0	28.7	5.5
2008	(9.6)	(31.8)	(37.0)
2009	19.8	2.7	26.5
2010	13.0	21.4	15.1
2011	4.6	(4.7)	2.1
2012	14.4	16.8	16.0
2013	18.2	32.7	32.4
2014	8.3	27.0	13.7
2015	6.4	(12.5)	1.4
2016	10.7	23.4	12.0
2017	23.0	21.9	21.8
Compounded Annual Gain – 1965-2017	19.1%	20.9%	9.9%
Overall Gain – 1964-2017	1,088,029%	2,404,748%	15,508%

2017 - AQUISITIONS

- One stand alone purchase – 38.6% in Pilot Flying J (Travel Center Op)
- **Bolt on acquisitions**
 - Clayton acquired 2 builders : Clayton has 49% of manufactured home market
 - Shaw industries acquired US floors (luxury vinyl tiles)
 - Home services (real estate brokerage) acquired Long & Foster
 - Precision castparts bought Wilhelm Schulz GmbH

AQUISTION TARGET'S PROFILE

- (1) Large purchases (at least \$75 million of pre-tax earnings unless the business will fit into one of our existing units),
- (2) Demonstrated consistent earning power (future projections are of no interest to us, nor are “turnaround” situations),
- (3) Businesses earning good returns on equity while employing little or no debt,
- (4) Management in place (we can't supply it),
- (5) Simple businesses (if there's lots of technology, we won't understand it),
- (6) An offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown).

INSURANCE BUSINESS

- Started in 1967 by acquiring national indemnity
- **Float is the key**
 - Premiums are upfront while claims are over the life
 - Claims may take years to surface and even longer to settle
 - Loss payments at times spread over decades
 - Long tail businesses (medical malpractices etc) generate far more float
 - Had a \$10.2 B premium deal of AIG reinsurance of \$20B in 2017
 - The risks of long tail insurances are also big. Approximate \$3 B liability because of hurricanes last September. 2017 broke record run of 14 years of underwriting profits
 - Only company which can sustain \$400 B mega catastrophe without falling apart

NON INSURANCE BUSINESSES

- 90% of the investments in USA
- Capital expenditures far exceeds depreciation charge – always expanding
- Focus is to increase acquisitions in non insurance businesses to increase income share
- Dividend income from common stocks \$3.7 B

COMMON STOCK INVESTMENTS

<u>Shares*</u>	<u>Company</u>	<u>Percentage of Company Owned</u>	<i>12/31/17</i>	
			<u>Cost**</u>	<u>Market</u>
			<i>(in millions)</i>	
151,610,700	American Express Company	17.6	\$ 1,287	\$ 15,056
166,713,209	Apple Inc.	3.3	20,961	28,213
700,000,000	Bank of America Corporation	6.8	5,007	20,664
53,307,534	The Bank of New York Mellon Corporation	5.3	2,230	2,871
225,000,000	BYD Company Ltd.	8.2	232	1,961
6,789,054	Charter Communications, Inc.	2.8	1,210	2,281
400,000,000	The Coca-Cola Company	9.4	1,299	18,352
53,110,395	Delta Airlines Inc.	7.4	2,219	2,974
44,527,147	General Motors Company	3.2	1,343	1,825
11,390,582	The Goldman Sachs Group, Inc.	3.0	654	2,902
24,669,778	Moody's Corporation	12.9	248	3,642
74,587,892	Phillips 66	14.9	5,841	7,545
47,659,456	Southwest Airlines Co.	8.1	1,997	3,119
103,855,045	U.S. Bancorp	6.3	3,343	5,565
482,544,468	Wells Fargo & Company	9.9	11,837	29,276
	Others		14,968	24,294
	Total Common Stocks Carried at Market		<u>\$ 74,676</u>	<u>\$ 170,540</u>

In short run, the market is voting machine; in the long run, it's a weighing machine

NEVER BORROW TO BUY STOCKS

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Percentage Decrease</u>
March 1973-January 1975	93	38	(59.1%)
10/2/87-10/27/87	4,250	2,675	(37.1%)
6/19/98-3/10/2000	80,900	41,300	(48.9%)
9/19/08-3/5/09	147,000	72,400	(50.7%)

"If you can keep your head when all about you are losing theirs . . .

If you can wait and not be tired by waiting . . .

If you can think – and not make thoughts your aim . . .

If you can trust yourself when all men doubt you... Yours is the Earth and everything that's in it."

BUFFET'S VS PROTÉGÉ PARTNERS

THE BET - ETF VS HEDGE FUNDS

<u>Year</u>	<u>Fund-of-Funds A</u>	<u>Fund-of-Funds B</u>	<u>Fund-of-Funds C</u>	<u>Fund-of-Funds D</u>	<u>Fund-of-Funds E</u>	<u>S&P Index Fund</u>
2008	-16.5%	-22.3%	-21.3%	-29.3%	-30.1%	-37.0%
2009	11.3%	14.5%	21.4%	16.5%	16.8%	26.6%
2010	5.9%	6.8%	13.3%	4.9%	11.9%	15.1%
2011	-6.3%	-1.3%	5.9%	-6.3%	-2.8%	2.1%
2012	3.4%	9.6%	5.7%	6.2%	9.1%	16.0%
2013	10.5%	15.2%	8.8%	14.2%	14.4%	32.3%
2014	4.7%	4.0%	18.9%	0.7%	-2.1%	13.6%
2015	1.6%	2.5%	5.4%	1.4%	-5.0%	1.4%
2016	-3.2%	1.9%	-1.7%	2.5%	4.4%	11.9%
2017	12.2%	10.6%	15.6%	N/A	18.0%	21.8%
Final Gain	21.7%	42.3%	87.7%	2.8%	27.0%	125.8%
Average Annual Gain	2.0%	3.6%	6.5%	0.3%	2.4%	8.5%

A willingness to look unimaginative for a sustained period – or even to look foolish – is essential

Reminder – Annual Meeting on 5th May, 2018

THANK YOU